

**REPORT OF THE AUDIT OF THE
OWEN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWEN COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Owen County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$4,721 from the prior year, resulting in excess fees of \$72,128 as of December 31, 2009. Revenues decreased by \$16,384 from the prior year and expenditures decreased by \$11,663.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily
- The Sheriff Should Pay Invoices In A Timely Manner

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Keith, County Judge/Executive
The Honorable Zemer Hammond, County Sheriff
Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Owen County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009 in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 9, 2010, on our consideration of the Owen County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Carolyn Keith, County Judge/Executive
The Honorable Zemer Hammond, County Sheriff
Members of the Owen County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily
- The Sheriff Should Pay Invoices In A Timely Manner

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Owen County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 9, 2010

OWEN COUNTY
ZEMER HAMMOND, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

Federal Grant	\$	455	
State - Kentucky Law Enforcement Foundation Program Fund			17,611
State Fees For Services:			
Finance and Administration Cabinet	\$	3,810	
Sheriff Security Service		7,852	11,662
Circuit Court Clerk:			
Fines and Fees Collected			7,567
Fiscal Court			650
County Clerk - Delinquent Taxes			1,903
Commission On Taxes Collected			190,886
Fees Collected For Services:			
Auto Inspections		2,750	
Accident and Police Reports		412	
Serving Papers		29,050	
Carrying Concealed Deadly Weapon Permits		4,015	36,227
Other:			
Tax Penalty		36,347	
Miscellaneous		1,705	38,052
Interest Earned			845
Borrowed Money:			
State Advancement			60,000
Total Revenues			365,858

The accompanying notes are an integral part of this financial statement.

OWEN COUNTY
 ZEMER HAMMOND, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$	86,184	
KLEFPF		17,611	

Contracted Services-

Advertising		3,075	
Vehicle Maintenance and Repairs		9,166	

Materials and Supplies-

Office Materials and Supplies		13,680	
Uniforms		2,131	

Auto Expense-

Gasoline		15,669	
Maintenance and Repairs			

Other Charges-

Conventions and Travel		665	
Dues		760	
Postage		4,048	
Computer		2,079	
Carrying Concealed Deadly Weapons Permits		175	
Miscellaneous		870	
		<u>870</u>	\$ 156,113

Debt Service:

State Advancement		<u>60,000</u>	
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Total Expenditures			\$ <u>216,113</u>
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Net Revenues			149,745
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Less: Statutory Maximum			<u>74,089</u>
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Excess Fees			75,656
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Less: Training Incentive Benefit			<u>3,528</u>
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Excess Fees Due County for 2009			72,128
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Payment to Fiscal Court - January 29, 2010			<u>71,468</u>
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Balance Due Fiscal Court			<u><u>\$ 660</u></u>
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The accompanying notes are an integral part of this financial statement.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent for the first six months and 32.97 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Owen County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Owen County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance.

Note 4. Drug Account

The Sheriff's office maintains an account for the receipt and expenditure of funds resulting from drug related seizures and forfeitures. Expenditures from this account are for law enforcement activities. The balance on January 1, 2009 was \$5,572. Receipts for 2009 were \$8,846 and expenditures were \$3,716. The balance in the account as of December 31, 2009 was \$10,702.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Keith, Owen County Judge/Executive
The Honorable Zemer Hammond, Owen County Sheriff
Members of the Owen County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Owen County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated June 9, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owen County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owen County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily
- The Sheriff Should Pay Invoices In A Timely Manner

This report is intended solely for the information and use of management, the Owen County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 9, 2010

COMMENTS AND RECOMMENDATIONS

OWEN COUNTY
ZEMER HAMMOND, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

During the review of the Sheriff's internal controls, the auditor noted the lack of adequate segregation of duties over receipts and disbursements. A deputy clerk is responsible for preparing the daily check out sheets, posting collection totals to the receipts ledger, preparing deposits, and reconciling the bank account. In addition, the same clerk is also responsible for bill payments and posting to the general ledger. Adequate segregation of duties would prevent the same person from having a significant role in the processing, recording, and reporting of receipts and disbursements. We recommend the following procedures to establish some compensating controls to offset the lack of adequate segregation of duties.

- The Sheriff or other employees should periodically compare the daily checkout sheets and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The review should be documented by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff or another employee should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The review should be documented by initialing and dating the bank reconciliation and the balance in the checkbook.
- The Sheriff or another employee should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. Initialing and dating the quarterly report should document the reviews.
- The Sheriff or another employee should periodically compare the invoices to the payments. Initialing and dating the invoices should document the review.

Auditor should note that we discussed these compensating controls with the Sheriff's bookkeeper. This finding has been repeated for several years and the bookkeeper stated she had begun implementing some of the compensating controls we discussed above. However, those controls were not documented when performed. The bookkeeper stated they would start documenting the reviews.

Sheriff's Response: None.

STATE LAWS AND REGULATIONS:

Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily

During the review of receipts, the auditor noted that receipts were not being batched daily, posted to a daily checkout sheet, and deposited daily. The Department of Local Governments (DLG) has established minimum requirements pursuant to KRS 68.210 for all local government officials handling public funds. These requirements include batching receipts daily, posting to a daily checkout sheet, and depositing daily into a federal insured banking institution.

OWEN COUNTY
ZEMER HAMMOND, SHERIFF
COMMENTS AND RECOMMENDATIONS
For the Year Ended December 31, 2009
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily
(Continued)

We recommend the Sheriff implement procedures to ensure receipts are batched daily, posted to a daily checkout sheet, and deposited within three business days in order to meet the requirements established by DLG.

Sheriff's Response: None.

The Sheriff Should Pay Invoices In A Timely Manner

Expenditure testing revealed an invoice that was over 90 days late. KRS 65.140(2) states, "unless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of a vendor's invoice." We recommend the Sheriff's office comply with KRS 65.140(2) and pay invoices in a timely manner.

Sheriff's Response: None.

